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Congress of the United States
House of Representatives
Washington, DC 20515-4906

July 21, 2004

Want Student Loan Competition? Equalize Subsidies

Dear Colleague,

The federal government uses two main programs to provide loans to college students: the Federal Family Education Loan program (FFEL) which subsidizes private banks and the Direct Loan program (DL) which provides loans through the U.S. Treasury. Both programs provide the same basic loan terms and compete for business from schools. This competition is an important part of our student loan system, ensuring that each program is responsive to school and student needs.

Unfortunately, the competition is rigged in favor of the FFEL program and banks. Banks are given a taxpayer funded advantage through generous subsidies which they use to recruit schools into the FFEL program. **Some have argued that providing these subsidies to one program and not the other somehow "lets the market decide" which program is best.** But if Congress were serious about letting the programs compete fairly, both would receive equal subsidies.

The annual subsidy (cost to taxpayers) on a Direct Loan is rarely higher than $1 on every $100 lent. Banks providing FFEL loans receive $6 to $8 *more* on every $100 lent. **If the subsidy on FFEL loans were limited to that of Direct Loans—$1 for every $100 lent—neither program would have an advantage.** But banks say they can't make a profit at that rate. So, every year they receive billions of dollars in taxpayer subsidies because they can't compete fairly with Direct Loans. **I think we need to ask why, if banks are more efficient at lending to students, as some claim, does the taxpayer have to subsidize them at a higher rate than Direct Loans?**

My legislation, the Direct Loan Reward Act (H.R. 4370), would help level the playing field. **Schools using Direct Loans would receive half of the taxpayer subsidies that would have gone to banks if the school had used the FFEL program.** Schools must use the new money to provide additional financial aid to students receiving Pell Grants, which could be as much as $2,000 per student each year. Because the bill taps savings from schools that switch to Direct Loans, no new taxpayer money is needed.

The Direct Loan Reward Act lets schools choose between giving money to banks or giving money to their students.

Please contact Jason Delisle (5-2476) for more information or to cosponsor.

Sincerely,

Thomas E. Petri
Member of Congress